

23 SEP 1948

TOP SECRET

CONFIDENTIAL

1. US and UK urge acceptance of UN Mediator's plan--The Department of State has instructed US representatives in Tel Aviv and the Arab capitals to urge acceptance of Count Bernadotte's recommendations for Palestine. The Department instructs the representatives that even though acquiescence in the recommendations may be all that the US can hope for, it would be a tactical mistake to urge less than acceptance to the Near East countries.

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US Ambassador Douglas in London transmits a message sent by the UK Foreign Office to British representatives in the Arab capitals strongly urging Arab acceptance of UN Mediator Bernadotte's recommendations for Palestine. The Foreign Office endorses the Mediator's proposal that Arab Palestine be incorporated in Transjordan because of the British view that Arab Palestine: (a) could not maintain itself as a separate state militarily, economically, or politically; (b) would be "a most uncomfortable neighbor" for the other Arab states because of the irresponsible elements who adhere to the Mufti and who would have prominent positions in the new state; and (c) would be so weak and inefficient that it would very shortly be subject to Jewish penetration. The Foreign Office declares that existing British guarantees to Iraq, Transjordan, and Egypt will be valid against any unprovoked aggression by the Jewish state.

UN officials press demilitarization of Jerusalem--US Consul General Macdonald in Jerusalem reports that Acting UN Mediator Bunche and the UN Truce Commission will attempt to negotiate the demilitarization of Jerusalem as soon as possible, on the ground that the conciliatory attitude displayed by Israeli officials following the assassination of Count Bernadotte may be only temporary. Macdonald suggests that the Department of State might find it helpful to express informally to the Israeli representative in Washington its interest in the Jerusalem situation.

State Department review completed

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NO CHANGE in Class. ☐

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## EUROPE

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2. **GERMANY: Soviet moves against Berlin leaders feared--US Political Adviser Murphy in Berlin reports that observers there fear that recent Soviet propaganda attacking Berlin's democratic leaders as instigators of "fascist" violence means that the USSR will either: (a) arrest these leaders; or (b) defer their arrest while building up a Soviet case before the UN, possibly even for demanding their extradition from the western sectors of the city. Murphy believes that, although the immediate consequence of such arrests would be acts of violence by Berlin's population rather than a weakening of the city's resistance, the loss of leaders might in the long run cripple this resistance.**

(CIA Comment: CIA believes that because of the Soviet desire to weaken the Allied position in Berlin, the USSR will not be deterred from further acts of provocation by a regard for the Soviet position in the UN or the reaction of Berliners. CIA believes, therefore, that the arrest of these leaders is a definite possibility.)

## FAR EAST

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3. **CHINA: Possible collapse of new currency--US Embassy Nanking believes that China's new currency may "collapse with spectacular and explosive suddenness within the next month or two." The Embassy reports that superficial price stability has been achieved during the past month largely by means of a stringent enforcement campaign, particularly in Shanghai. The Embassy points out that underlying inflationary forces have continued at work and no progress has been made in reducing the budget deficit. The Embassy observes that the reliability of the Government's armies will be questionable if the currency again becomes worthless paper.**

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**(CIA Comment: CIA believes that the National Government is headed for a new period of crisis brought on by increasing economic difficulties and military reverses. In this new crisis, the Government may finally disintegrate or, in a last effort to survive, may seek a compromise settlement with the Communists and accept any Soviet offer of mediation.)**

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